



IN REPLY REFER TO

DEFENSE CONTRACT AUDIT AGENCY

CAMERON STATION  
ALEXANDRIA, VIRGINIA 22314

OSA-0316-68

I-67-82-59

STATINTL

REPLY TO:

Rosslyn Station  
Arlington, Virginia 22209

January 30, 1968

SUBJECT: Report on Audit of Final Costs  
Lockheed Aircraft Corporation  
(Lockheed-California Company)  
Burbank, California  
Contract No. SP-1928

TO : Contracting Officer

1. Purpose of Audit. The purpose of this audit was to determine the accuracy and validity of the recorded hours and costs claimed under this fixed price redetermination-type contract, limited upwards and unlimited downwards, for the modification of ten aircraft, spares, and AGE; and to verify if the contractor used negotiated overhead and G&A rates for the periods involved.

2. Scope of Audit. We have examined on a selective basis, to the extent deemed necessary, the cost records and other data supporting the contractor's final cost statement. Also, the transfer of costs to and from this contract was reviewed. We verified that the direct labor hours and direct labor costs claimed were recorded on this job. The estimate to complete was reviewed by reference to amounts recorded after the date of the claim, 29 October 1967, and to the commitment tapes and/or open purchase orders.

3. Results of Audit. Results of the audit are presented as follows:

Contractor's	Auditor's Recommendations	
Final	Profit	
<u>Proposal</u>	<u>Questioned</u>	<u>Balance</u>

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Total costs

Profit

Total price


2

4. Comment on Profit. While the contract does not specify a rate of profit, it appears that a profit rate of [ ] was contemplated. The final amount of profit is subject to the approval of the Contracting Officer; however, the auditor has applied the rate of [ ] to the total costs. A copy of subparagraph c. of the price redetermination clause follows: "Upon filing of the statement and other pertinent information required by paragraph b. of this clause, the Contractor and the Contracting Officer will promptly negotiate in good faith to agree upon a reasonable redetermined price for the entire contract, which, upon the basis of such statement and other pertinent information, will constitute fair and just compensation to the Contractor for the performance of this contract. In determining the extent of any estimated allowance for profit to be taken into account in fixing such redetermined price, consideration will be given to the extent to which the Contractor has performed the contract with efficiency, economy and ingenuity. The redetermined price shall be evidenced by a supplemental agreement to this contract. In no event shall the redetermined price exceed the sum of [ ]" STATINTL  
STATINTL

5. Comments on Overhead. Overhead and G&A rates for the years 1965 and 1966 are those agreed upon or negotiated for use with ADP contracts. Overhead and G&A rates used for 1967 are those negotiated on 18 August 1967; however, the memorandum of understanding does not include this contract. The auditor, however, has no objection to the use of these rates for this contract.

6. Comment on Government Property. The contractor is in the process of preparing a statement regarding residual property which will be forwarded to the Contracting Officer at a later date.

7. Discussion with Contractor Personnel. The results of the audit were not discussed with contractor personnel, since the only item questioned was profit, as described in paragraph 4 above.

  
ARTHUR G. HANLEY  
DCAA Representative - APL